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June 5, 2014

Board of Directors  
Human Services, Inc.  
P.O. Box 588  
1585 Indianapolis Rd.  
Columbus, IN 47202

We have reviewed the audit report prepared by Gauthier & Kimmerling, LLC, for the period January 1, 2011 to December 31, 2011. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Human Services, Inc., as of December 31, 2011, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding in the report. Section III – Federal Award Findings and Questioned Costs located on the final page of the report section entitled Reports Prescribed by OMB Circular A-133 includes a current audit finding. Management's response is also included on this page.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

**HUMAN SERVICES, INC.  
AND SUBSIDIARIES**

**REPORT ON AUDIT OF  
CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011**

HUMAN SERVICES, INC.  
AND SUBSIDIARIES

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Gauthier & Kimmerling, LLC  
accountants & advisors

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Independent Auditors' Report

Board of Directors  
Human Services, Inc.  
and Subsidiaries  
Columbus, Indiana

We have audited the accompanying consolidated statement of financial position of Human Services, Inc. and Subsidiaries (the Organization) as of December 31, 2011, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Organization's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 27, 2012 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

*Gauthier & Kimmerling, LLC*

September 27, 2012

**HUMAN SERVICES INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2011**

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**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 317,876
Security deposits	44,467
Mortgage escrows	83,908
Accounts receivable	38,708
Accounts receivable - tenant	7,141
Grants receivable	598,092
Notes receivable - current portion	-
Inventory	36,704
Reserves	344,999
Prepaid expenses	50,206
Other current assets	<u>1,323</u>
 Total Current Assets	 <u>1,521,423</u>

**Property and Equipment**

Buildings	14,858,372
Site costs	814,261
Personal Property	379,640
Equipment	1,553,217
Land and land improvements	<u>463,887</u>
	18,069,377
Less accumulated depreciation	<u>(5,592,549)</u>
 Total Property and Equipment	 <u>12,476,828</u>

**Other Assets**

Intangible assets, net	22,111
Notes receivable - net of current portion	<u>46,972</u>
 Total Other Assets	 <u>69,083</u>

Total Assets	<u>\$ 14,087,334</u>
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(Continued)

**HUMAN SERVICES INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION - Continued**  
**DECEMBER 31, 2011**

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts payable	\$ 253,586
Accounts payable - limited partners	52,416
Developer fees payable	234,200
Accrued salaries and wages	134,414
Accrued interest payable	816,241
Accrued real estate taxes	55,500
Advances payable	201,909
Security deposits	48,480
Prepaid rent	3,629
Note payable - current portion	<u>117,427</u>
 Total Current Liabilities	 <u>1,917,802</u>

**Long-Term Liabilities**

Notes payable - less current portion	<u>4,987,551</u>
 Total Long-Term Liabilities	 <u>4,987,551</u>

Total Liabilities	<u>6,905,353</u>
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**Net Assets**

Non-controlling interest in net assets	4,638,136
Unrestricted Net Assets	2,502,323
Unrestricted Net Assets - Board restricted	<u>21,522</u>
Total Unrestricted Net Assets	<u>2,523,845</u>
Total Liabilities and Net Assets	<u>\$ 14,067,334</u>

The accompanying notes are an integral part of the financial statements.

**HUMAN SERVICES INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**REVENUES AND OTHER SUPPORT**

Government grants	\$ 10,504,794
Contributions	561,489
Rental income	956,548
Less: Vacancy loss	(55,790)
Rent concessions	(15,718)
Interest income	5,420
Miscellaneous tenant charges	7,897
Other income	115,432
Tax refund	45,877
Insurance reimbursement	58,497
In-kind donations	<u>489,998</u>
Revenues and other support	<u>12,674,244</u>
Total Unrestricted Revenues and Other Support	<u>12,674,244</u>

**EXPENSES**

CSBG	383,815
Section 8	2,414,459
Energy assistance	972,658
Headstart	4,026,439
Weatherization	1,573,649
WIC	349,499
USDA	251,314
HPRP	273,140
Commodities	108,838
CCDF	154,231
Low-income housing	1,336,627
Other programs	<u>1,149,636</u>
Total Program	<u>12,996,305</u>
Management and general	<u>301,042</u>
Total Expenses	<u>13,297,347</u>
Increase (decrease) in net assets before non-controlling interest	<u>(623,103)</u>
Non-controlling interest's portion of loss	<u>366,337</u>
Increase (decrease) in net assets	(256,766)
Unrestricted net assets - beginning of year	2,872,611
Prior Period Adjustments (Note 11)	<u>(92,000)</u>
Unrestricted net assets - end of year	<u>\$ 2,523,845</u>

The accompanying notes are an integral part of the financial statements.

**HUMAN SERVICES INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	CSBG	Sec 8	Energy Assistance	Head Start	Weatherization	WIC	USDA	HPRP
Salaries and wages	\$ 196,529	\$ 134,883	\$ 280,377	\$ 2,199,883	\$ 344,030	\$ 210,515	\$ 28,924	\$ 55,641
Payroll taxes	20,342	12,989	30,796	221,009	34,769	21,728	3,299	5,465
Employee Benefits	34,421	58,726	69,128	455,846	54,885	38,179	4,195	2,946
Employee Related Expenses	1,959	307	295	9,411	879	1,368	-	-
Professional fees	7,279	2,548	204,827	45,761	424,674	3,901	332	13,028
Supplies	9,495	3,948	73,238	120,762	7,292	17,330	213,284	688
Communications	12,138	2,578	15,195	26,298	3,659	10,365	-	1,898
Shipping	2,218	5,000	4,455	3,440	614	1,815	64	225
Occupancy Costs	38,545	10,998	35,414	486,100	22,934	39,411	377	-
Equipment Rental and Maintenance	9,629	4,251	13,906	31,738	5,838	662	45	404
Printing	2,288	489	5,007	6,676	955	40	-	-
Travel	8,587	4,385	14,110	155,210	42,344	3,024	694	4,100
Conferences	20,684	369	1,143	89,003	10,187	60	-	2,823
Specific Assistance to Individuals	13,033	2,171,462	219,699	157,600	609,391	-	-	185,712
Membership Dues	3,938	12	60	2,333	56	281	-	-
Interest Expense	-	-	-	-	-	-	-	-
Insurance Expense	2,730	1,514	5,008	17,369	11,142	820	100	220
Taxes	-	-	-	-	-	-	-	-
Construction Expense	-	-	-	-	-	-	-	-
Advertising	-	-	-	-	-	-	-	-
Property Maintenance	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-
Partnership fees	-	-	-	-	-	-	-	-
Bad Debt	-	-	-	-	-	-	-	-
Amortization	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 383,815</b>	<b>\$ 2,414,459</b>	<b>\$ 972,658</b>	<b>\$ 4,028,439</b>	<b>\$ 1,573,649</b>	<b>\$ 349,499</b>	<b>\$ 251,314</b>	<b>\$ 273,140</b>

(Continued)

**HUMAN SERVICES INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES - Continued**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	Commodities	CCDF	Low-Income Housing	Other Programs	Total Programs	Management And General	Total Expenses
Salaries and wages	\$ 20,881	\$ 44,922	\$ 105,410	\$ 357,972	\$ 3,979,967	\$ 3,937	\$ 3,983,904
Payroll taxes	2,384	4,724	9,789	32,748	400,042	421	400,463
Employee Benefits	5,200	8,803	-	37,012	769,341	608	769,949
Employee Related Expenses	924	23	-	(40)	15,126	114	15,240
Professional fees	4,476	83,333	102,577	92,179	984,915	21,517	1,006,432
Supplies	3,232	761	43,809	33,602	527,441	(21,686)	505,755
Communications	1,667	1,433	13,493	4,851	93,565	-	93,565
Shipping	201	1,259	-	1,982	21,273	63	21,336
Occupancy Costs	11,517	5,750	-	43,943	694,989	605	695,594
Equipment Rental and Maintenance	4,258	1,565	-	2,694	74,990	(405)	74,585
Printing	484	118	-	405	16,462	-	16,462
Travel	12,954	764	474	13,454	260,100	649	260,749
Conferences	332	(1)	-	20,619	145,219	74	145,293
Specific Assistance to Individuals	34,375	-	-	490,458	3,881,730	2,391	3,884,121
Membership Dues	150	-	-	56	6,886	-	6,886
Interest Expense	-	-	253,407	-	253,407	50	253,457
Insurance Expense	5,803	777	41,257	4,555	91,295	7,486	98,781
Taxes	-	-	50,593	3,532	54,125	-	54,125
Construction Expense	-	-	-	9,614	9,614	-	9,614
Advertising	-	-	2,414	-	2,414	-	2,414
Property Maintenance	-	-	153,747	-	153,747	-	153,747
Utilities	-	-	90,700	-	90,700	-	90,700
Partnership fees	-	-	12,677	-	12,677	-	12,677
Bad Debt	-	-	3,513	-	3,513	-	3,513
Amortization	-	-	3,253	-	3,253	-	3,253
Depreciation	-	-	449,514	-	449,514	285,218	734,732
<b>Total</b>	<b>\$ 108,838</b>	<b>\$ 154,231</b>	<b>\$ 1,336,627</b>	<b>\$ 1,149,636</b>	<b>\$ 12,996,305</b>	<b>\$ 301,042</b>	<b>\$ 13,297,347</b>

The accompanying notes are an integral part of the financial statements.

**HUMAN SERVICES INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ (256,766)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	734,732
Amortization	3,253
Bad debt	3,513
Change in non-controlling interest	(366,337)
(Increases) decreases in operating assets:	
Grants receivable	245,138
Accounts receivable	(6,528)
Accounts receivable - tenant	(3,560)
Mortgage escrow	(8,790)
Security deposits	1,881
Operating reserves	(33,285)
Notes receivable	(3,329)
Inventory	(17,008)
Other Assets	165
Prepaid expenses	(18,874)
Increases (decreases) in operating liabilities:	
Accounts payable	(112,390)
Accounts payable - limited partners	6,814
Accrued interest payable	101,149
Accrued real estate taxes	(17,500)
Accrued salaries and wages	(19,697)
Accrued taxes	(41,151)
Security deposits	2,136
Prepaid rent	2,993
Advances payable	(21,009)
Net Cash Provided by (Used in) Operating Activities	<u>176,548</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Decrease of construction costs	(60,000)
Net deposits to replacement reserve	(27,440)
Purchase of property and equipment	<u>(21,686)</u>
Net Cash Provided by (Used in) Investing Activities	<u>(109,126)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Payment on debt	(50,676)
Payment of developer fees	(63,035)
Additional capitalized costs	<u>(5,000)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(118,711)</u>
Net Increase (decrease) in cash	(52,289)
Cash - beginning of year	<u>370,164</u>
Cash - end of year	<u>\$ 317,875</u>
Interest paid during the year	<u>\$ 152,845</u>

The accompanying notes are an integral part of the financial statements.

**HUMAN SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

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**1. NATURE OF THE ORGANIZATION**

The consolidated financial statements include the accounts of Human Services, Inc. (the Organization) and its wholly owned subsidiaries, HSI Properties, Inc. and HSI Solutions, Inc. The statements also include the following for-profit tax credit partnerships established to construct and rent apartment units to low-income individuals, which results in federal income tax credits being made available to investors: Oak Hill Apartments, L.P., Oak Hill Apartments II, L.P., Pearson Place, L.P. and Ridgecrest Limited, L.P. HSI Properties is the general partner in each of these partnerships and has a .01% controlling financial interest in Pearson Place, L.P. and .1% controlling interest in the others. HSI Properties also has a 50% controlling financial interest in Jerman Housing, LLC, an entity which has a .01% controlling financial interest as a general partner in Jerman Housing, L.P., an entity which also constructs and rents apartment units to low-income individuals. In accordance with FASB ASC 958-810-15-4, consolidation is required for each of the previously mentioned entities and all material intercompany transactions have been eliminated in the consolidation. HSI Properties is also the non-managing general partner of Brownstown Senior Housing, L.P. which is not consolidated in this report.

Human Services, Inc. was incorporated and commenced operations as a non-for-profit organization on October 20, 1965, under the laws of the State of Indiana. The Organization is committed to helping families and children improve their quality of life in Bartholomew, Brown, Decatur, Jackson, Johnson and Shelby counties in Indiana. On November 26, 1990, Human Services, Inc. formed HSI Properties, Inc. (Properties) as a wholly owned subsidiary under the laws of the State of Indiana. As discussed below, Properties holds a general partner interest in six low-income housing projects. HSI Solutions, Inc. was formed on April 16, 2009 as a wholly owned subsidiary under the laws of the state of Indiana. The for-profit venture was formed to provide construction services to the properties owned by Properties.

Oak Hill Apartments, L.P. was formed in 1996 for the purpose of constructing 48 housing units in Seymour, Indiana. The units are rented to low-income individuals and, as a result, federal income tax credits are available to investors. As discussed above, the sole general partner is Properties. The investor limited partner is House Investments – 1997 Tax Credits, L.P. The special limited partner is House Investments Credit Associates, LLC.

Oak Hill Apartments II, L.P. was formed in 1999 for the purpose of constructing 24 housing units in Seymour, Indiana. The units are rented to low-income individuals and, as a result, federal income tax credits are available to investors. As discussed above, the sole general partner is Properties. The investor limited partners are House Investments – Midwest Corporate Tax Credit Fund V, L.P., House Investments – Irwin Union Tax Credit Fund, L.P., and House Investments – Midwest Corporate Tax Credit Fund IV, L.P. The special limited partner is House Investments Credit Associates II, LLC.

1. NATURE OF THE ORGANIZATION - Continued

Pearson Place, L.P. (the Partnership) was formed in 2005 for the purpose of constructing 35 housing units in Shelbyville, Indiana. The units are rented to low-income individuals and, as a result, federal income tax credits are available to investors. As discussed above, the sole general partner is Properties. The limited partner is Enterprise Housing Partners XIII Limited Partnership.

Ridgecrest Limited, L.P. (the Partnership) constructed 20 housing units in Greensburg, Indiana. Nineteen of the units are rented to low-income individuals and, as a result, federal income tax credits are available to investors. As discussed above, the sole general partner is Properties. The investor limited partner is House Investments – Midwest Corporate Tax Credit Fund IV, L.P. and the special limited partner is House Investments Credit Associates, LLC.

Jerman Housing, L.P. (the Partnership) was formed in 2002 for the purpose of constructing 36 housing units in Greensburg, Indiana. The units are rented to low-income individuals and, as a result, federal income tax credits are available to investors. The general partner is Jerman Housing, LLC, of which Properties and Maxwell Properties V, Inc. are members. The limited partner is Freddie Mac Equity II-ESIC-Limited Partnership. The sponsor of the project is Human Services, Inc.

Brownstown Senior Housing, L.P. (the Partnership) was formed in 2007 for the purposes of constructing 35 housing units in Brownstown, Indiana. A portion of those units are rented to low-income individuals and, as a result, federal income tax credits are available to investors. The general partners are SCIDCO, LLC, the managing general partner, and Properties. Properties has a .0049% interest in the Partnership. The limited partner is Enterprise Housing Alliance Fund II, L.P.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Organization and Subsidiaries have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

The Organization received grants from the State of Indiana and the federal government to carry out certain program activities. The grants are received under contracts which require the Organization to submit to the State of Indiana appropriate records of services provided to eligible individuals. Revenues under the contract are recognized as the services are provided.

The Subsidiary and the entities in which it holds a controlling interest recognizes revenue as it is earned and billed.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES - Continued

The Organization follows the practice of capitalizing all expenditures in excess of \$5,000 for property and equipment at cost. The fair value of donated fixed assets is similarly capitalized. Depreciation is provided using the straight-line method over estimated useful lives of 5-39 years. The following is a summary of the lives for each class of asset:

Buildings/leasehold improvements	5-39 years
Equipment	5-10 years
Vehicles	5-10 years

When property is sold, retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is credited or charged to income. Expenditures for maintenance and repairs are expenses when incurred.

Total depreciation expense for the year ended December 31, 2011 was \$734,732.

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). Income tax expense for the Subsidiaries will include federal and state taxes currently payable and deferred taxes arising from temporary differences between income for financial reporting and income tax purposes. No such differences existed as of December 31, 2011. The Organization believes it is no longer subject to income tax examination for years prior to 2008.

The Organization and subsidiaries have adopted the accounting policy to recognize a tax benefit only if it is more likely than not the tax position would be sustained in a tax examination with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit will be recorded.

The cost of providing various programs and other activities has been summarized on a functional basis in the consolidated statement of activities and in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

The grants receivable represent amounts the Organization has filed claims for the year ended and were awaiting payment. A substantial majority of receivables are due from government sources. The amount deemed uncollectible is zero. Therefore, no bad debt allowance is considered necessary.

Long-lived assets and certain identifiable intangibles held and used by the Organization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

## 2. SIGNIFICANT ACCOUNTING POLICIES – Continued

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. For comparability purposes, the Subsidiary's financial statement presentation follows that of the Organization. A description of the unrestricted, temporarily and permanently restricted net assets classes follows:

- *Unrestricted net assets* represent the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for the support of the Organization.
- *Temporarily restricted net assets* represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations. Temporarily restricted net asset also include, pursuant to Indiana law, cumulative appreciation and reinvested gains on permanently restricted net assets, which has not been appropriated by the Board of Directors.
- *Permanently restricted net assets* represent contributions and other inflows or assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

The Organization's unrestricted net assets are presented on the statement of financial position. The Organization does not have any temporarily or permanently restricted net assets.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulation restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Support funded by grants is recognized as the organization performs the contracted services under grant agreements. Grant revenue is recognized as earned as the eligible expenses are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required. Amounts required prior to expenditures being incurred would be reflected as refundable advances in the consolidated statement of financial position.

Inventories which consist primarily of insulation and weatherization supplies are valued at the lower of cost or market. Cost is determined on the first-in first-out method. Donated items are recorded at estimated fair value at the date of donation. Total supplies inventory amounted to \$36,704 for the year ended December 31, 2011.

(Continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES -- Continued

Donated marketable securities are presented at their fair market value.

Common costs of the Organization are allocated to benefitting programs using various allocation methods, depending on the type of joint cost being allocated. Common costs are those costs incurred for the common benefit of all agency programs, but which cannot be readily identified with a final cost objective. Cost allocation methods for the Organization are as follows:

- Personnel -- Agency administrative personnel record the time they spend working on specific programs and general agency matters on their time sheets. The time specifically identifiable to a particular program is charged to that program. The time spent on general agency matters is charged to programs using a percentage based on the direct labor charges to programs.
- Supplies -- All supplies purchased for general use and stored in the main office supply room will be charged to the Community Service Block grant.
- Building -- Unallocated occupancy costs are allocated based on the rent distribution at each location. Rent distributions are based on square footage used by each program at each specific location. Occupancy costs include rent, utilities, pest control, trash pick-up, security, fire protection, and storage and building maintenance.
- Printing Costs -- Unallocated printing costs are allocated based on each program's percentage of direct labor hours. The most recent month's calculated percentage is used.
- Insurance -- Insurance is allocated to benefitting programs depending on the equipment, space or people covered by the insurance. Unallocated insurance is allocated based on the payroll of the program, the number of employees involved, amount of assigned equipment and/or the rent distribution for the specific location. Examples of unallocated insurance include Officers and Directors insurance and non-profit umbrella policy.
- Other Joint Costs -- Other joint costs (telephone, computer usage, etc.) are allocated to agency programs based on the amount used by each program.

In addition to receiving cash contributions, the Organization received in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair market value of certain in-kind donations as an expense in its financial statements and similarly increase revenue and support by the same amount. For the year ended December 31, 2011, this adjustment amounted to \$489,998 and is included in revenue and support on the consolidated statement of activities.

Rental income is recognized as rental payments become due. Rental payments received in advance are deferred until earned. All leases between the Organization and the tenants of the property are operating leases.

(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES – Continued

The Organization has recorded in-kind contributions for professional services on the consolidated statement of activities. The Organization is required by generally accepted accounting principles to only report contributions of services received that create or enhance a non-financial asset or require specialized skill by the individual possessing those skills and would typically need to be purchased if not provided by donation be recorded. These requirements are different from the in-kind requirements of the Organization's grant funding sources.

Of the \$489,998 of in-kind contributions and related expenses recorded in the Organization's consolidated statement of activities for the year ended December 31, 2011, contributed services meeting the requirement of generally accepted accounting principles are \$92,047. In addition, \$73,618 consisting of food, clothing and other goods were donated to the Organization's Horizon House. During 2011, the organization also received other in-kind contributions totaling \$173,675, related to its Head Start program which includes services from non-professional volunteers during 2011, which are not recorded in the consolidated statement of activities.

Head Start in-kind professional services	\$ 92,047
Supplies/food/space - in-kind	324,333
Horizon House in-kind supplies/food/space	<u>73,618</u>
Total In-Kind per GAAP	489,998
Head Start volunteer services	173,675
Horizon House volunteer services	<u>6,876</u>
Total In-Kind for All Programs	<u>\$ 670,549</u>

Permanent financing costs are amortized over the term of the mortgage using the straight-line method. Accounting principles generally accepted in the United States of America require the effective yield method to be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Syndication costs are capitalized and not amortized.

3. CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, investments with an original maturity of three months or less are considered to be cash equivalents.

The Organization maintains its cash balances at a commercial bank. These accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 as of December 31, 2011. The balance in excess of FDIC coverage is collaterally secured by the bank with treasury bills. At December 31, 2011, bank balances in excess of FDIC coverage were approximately \$186,000. There have been no losses in such accounts.

4. PENSION PLAN

The Organization has a 403(b) Plan (the Plan) in which employees may participate upon their employment. Participants may contribute up to 20% of their pretax annual compensation to the Plan and the Organization may make discretionary contributions to the Plan on behalf of the employees. The participant is 100% vested immediately for any discretionary contributions and participant contributions. The Organization made no discretionary contributions to the Plan during the year ended December 31, 2011.

5. LONG-TERM DEBT

Long-term debt of the Organization consists of the following as of December 31, 2011:

Note payable - 1% note payable to the Federal Home Loan Bank Affordable Housing Program (AHP) dated May 7, 1999, payable at maturity in May, 2017.	\$ 235,732
Note payable - 1% note payable to First Financial Bank (formerly Irwin Union Bank) of Home Investment Partnership Program (HOME) funds dated September 1, 1997, payable at maturity in September 2017.	490,132
Note payable - 5.5% note payable to First Financial Bank (formerly Irwin Union Bank), payable in monthly installments of \$2,676 with interest for 59 months and a final balloon payment due at maturity in October 2013.	277,373
Note payable - 1% note payable to the Federal Home Loan Bank (AHP) funds dated February 11, 2000, annual interest payments from available cash flow of the affiliated housing project.	300,000
Note payable - 5.79% note payable to the Indiana Housing and Community Development Authority (IHCDA) HOME program dated June 22, 1999, payments of principal and interest from the available cash flow of the affiliated housing project.	208,500
Note payable - 4.85% note payable to the Federal Home Loan Bank AHP Program dated June 30, 2003, payments of principal and interest from the available cash flow of the affiliated housing project.	360,000
Note payable - 4.17% note payable to the Federal Home Loan Bank (AHP funds) dated July 30, 2003, payments of principal and interest from the available cash flow of the affiliated housing project.	300,000

(Continued)

5. LONG-TERM DEBT – Continued

Note payable - 1% note payable to the Federal Home Loan Bank (AHP funds) dated December 1, 2005, annual interest payments from the available cash flow of the affiliated housing project.	500,000
Note payable - 5% note payable to IHEDA HOME funds dated December 1, 2005, payments of principal and interest from the available cash flow of the affiliated housing project.	500,000
Note payable - Union Bank provided Oak Hill Apartments with \$617,835 in December 1998. Interest on this loan is payable based on United States Treasury Securities plus 2.25%. Monthly payments of \$4,466 are to be made. Note matures December 31, 2013.	428,901
Note payable - First Financial Bank provided Pearson Place with \$600,000. The note bears interest at 7.2% and requires monthly payments of \$4,115. The note matures on December 7, 2022.	573,761
Note payable - Enterprise Housing Partners XVII Limited Partnership provided Pearson Place with \$62,794. The note is interest free and due on June 30, 2014.	62,794
Note payable - Enterprise Housing Partners XVII Limited Partnership provided Pearson Place with \$49,206. The note is interest free and due on June 20, 2012 but was informally extended.	49,206
Note payable - Enterprise Housing Partners XVII Limited Partnership provided Pearson Place with \$100,000. The note bears interest at 7.2% and has monthly payments of \$679. The note matures on December 31, 2021.	97,437
Note payable - Old National Bank provided Ridgecrest Limited with \$425,000. The note was sold to Bayview Loan Servicing in 2006. The note bears interest at 8% with monthly payments of \$3,280. The note matures on October 15, 2015.	328,998
Note payable - Main Source Bank provided Jerman Housing with \$360,000. The note bears interest at 8% with monthly payments of \$2,670. The note matures in February 2032.	334,644

(Continued)

5. LONG-TERM DEBT – Continued

Note payable - Indiana Housing and Community Development Authority made available \$57,500 for use in their Business Enterprise and Economic Development program. The funds are to be loaned out to local businesses. Should the program become discontinued, the funds will need to be repaid or approval from IHEDA must be obtained to use the funds for other uses.

67,500  
\$ 5,104,978

The future maturities of long-term debt are as follows for the year ended December 31,

2012	\$ 117,427
2013	700,196
2014	97,439
2015	304,905
2016	21,393
Thereafter	<u>3,863,618</u>
	<u>\$ 5,104,978</u>

6. OPERATING LEASES

The Organization leases various facilities and equipment for operation of its programs. Rental expense included in the consolidated statement of activities for the year ended December 31, 2011 was approximately \$319,325.

Future minimum lease payments for these leases are as follows for the year ended December 31,

2012	\$ 163,196
2013	112,340
2014	89,375
2015	43,800
2016	15,500

None of the subsidiaries held leases during the year ended December 31, 2011.

7. LINE OF CREDIT

The Organization has a line of credit with First Financial Bank in the amount of \$200,000. The line of credit matured on April 6, 2012 and was renewed for three month periods as needed. No funds were drawn on the line of credit at year end.

8. CONCENTRATIONS

The Organization receives a majority of its funding from federal grants accounting for 83% of total revenue in 2011.

## 9. FAIR VALUE MEASUREMENT

In accordance with Accounting Standards Codification (ASC) 820, the Organization measures its assets and liabilities at fair value using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires that entities maximize the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The three levels of inputs used are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Quoted prices for similar assets or liabilities in active markets
- Level 3 – Unobservable inputs for the asset or liability based on the best available information

There were no assets or liabilities valued on a recurring basis as of December 31, 2011.

The fair value of short-term financial instruments, including cash and cash equivalents, security deposits, reserves, accounts receivable, inventory, prepaid expenses, accounts payable, prepaid revenues, and other accrued liabilities approximate the carrying value in the accompanying financial statements due to the short maturity of such instruments.

The fair value of long-term liabilities, including notes payable, approximates the carrying value in the accompanying financial statements based on current borrowing rates.

All methods of assessing fair value result in a general approximation of value and such value may never be realized.

## 10. CONTINGENT LIABILITY

The Organization provides repairs and improvements to owner occupied residences. The Organization holds a mortgage equal to the amount of the repairs for each participating homeowner. These mortgages are forgivable if the mortgagor owns and occupies the mortgaged premises for at least thirty-six (36) months.

As of December 31, 2011, the Organization holds 3 mortgages with a total balance of \$71,188. While the Organization holds the zero percent forgivable mortgages, the anticipated future collections cannot be determined. Although these mortgages are secured by a lien on the homes, there is a possibility that the Organization may have to repay the governmental funds used under this program if the owner occupants do not occupy the homes for the thirty-six (36) month mandatory period. The final liability, if any, to be paid cannot be determined at this time. Accordingly, these financial statements do not reflect any liability, which may arise as a result.

## 11. PRIOR PERIOD ADJUSTMENT

In a prior year, \$92,000 of developer fee relating to Pearson Place was incorrectly recorded. The net effect does not impact the statement of activities. The effect of the correction is eliminated in consolidation as it affects Properties and its investment in Pearson Place.

12. CAPITALIZED COSTS

The capitalized costs and related amortization are as follows at December 31, 2011:

	<u>Basis</u>	<u>Accumulated Amortization</u>
Permanent financing costs	\$ 43,201	\$ 21,090

Estimated annual amortization expense for each of the next five years is as follows:

Year ending December 31,

2012	\$	3,670
2013		3,398
2014		2,281
2015		2,159
2016		1,710

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

**SUPPLEMENTAL INFORMATION**



**Gauthier & Kimmerling, LLC**  
accountants & advisors

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Independent Auditor's Report on Supplemental Information

Board of Directors  
Human Services Inc.  
and Subsidiaries  
Columbus, Indiana

We have audited the accompanying consolidated statement of financial position of Human Services, Inc. and Subsidiaries (the Organization) as of December 31, 2011, and the related consolidated statement of activities, functional expenses, and cash flows for the year then ended. Our report thereon appears on page 1.

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Gauthier & Kimmerling, LLC*

September 27, 2012

**HUMAN SERVICES INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2011**

**ASSETS**

	Human Services	HSI Properties	HSI Solutions	Oak Hill Apartments	Oak Hill Apartments II	Pearson Place	Ridgecrest Limited	Jerman Housing LLC	Eliminations	Consolidated Total
<b>CURRENT ASSETS</b>										
Cash and cash equivalents	\$ 272,180	\$ 15,323	\$ 1,251	\$ 11,109	\$ 5,684	\$ 5,870	\$ 6,542	\$ -	\$ -	\$ 317,575
Security deposits	-	-	-	13,701	6,800	5,820	7,710	6,438	-	44,467
Mortgage escrows	-	-	-	57,920	5,342	20,646	-	-	-	83,908
Investment in Partnerships	-	247,761	-	-	-	-	-	-	(247,761)	-
Accounts receivable	-	-	8,488	28,210	-	-	-	-	-	36,708
Accounts receivable - tenant	-	-	-	1,865	3,091	2,008	-	179	-	7,141
Grants receivable	607,559	-	-	-	-	-	-	-	(9,467)	598,092
Notes receivable - current portion	5,000	45,389	-	-	-	-	-	-	-	50,389
Inventory	36,704	-	-	-	-	-	-	-	-	36,704
Reserve	-	-	-	118,283	45,541	21,063	66,803	93,359	-	344,959
Prepaid expenses	38,726	-	-	-	-	6,520	4,891	-	-	50,206
Other current assets	1,323	-	-	-	-	-	-	-	-	1,323
<b>Total Current Assets</b>	<b>961,571</b>	<b>308,479</b>	<b>9,749</b>	<b>231,058</b>	<b>66,358</b>	<b>65,825</b>	<b>85,948</b>	<b>99,954</b>	<b>(307,617)</b>	<b>1,521,425</b>
<b>Property and Equipment</b>										
Buildings	1,390,811	-	-	2,140,230	1,137,333	4,911,580	1,242,247	4,098,166	-	14,858,372
Site costs	-	-	-	287,398	409,848	86,235	30,780	-	-	814,261
Personal Property	-	-	-	103,248	44,144	66,369	41,811	124,067	-	373,640
Equipment	1,553,217	-	-	103,449	91,088	6,000	45,000	128,350	-	1,553,217
Land and land improvements	80,000	-	-	-	-	-	-	-	-	80,000
Less accumulated depreciation	(1,221,193)	-	-	(1,441,593)	(794,189)	(708,595)	(459,383)	(987,606)	-	(5,592,549)
<b>Total Property and Equipment</b>	<b>1,812,825</b>	<b>-</b>	<b>-</b>	<b>1,192,733</b>	<b>883,239</b>	<b>4,361,569</b>	<b>920,475</b>	<b>3,300,977</b>	<b>-</b>	<b>12,476,828</b>
<b>Other Assets</b>										
Intangible assets, net	-	-	-	653	1,353	4,400	2,182	13,043	-	22,111
Notes receivable - net of current portion	3,232,998	-	-	-	-	-	-	-	(3,186,024)	46,972
<b>Total Other Assets</b>	<b>3,232,998</b>	<b>-</b>	<b>-</b>	<b>653</b>	<b>1,353</b>	<b>4,400</b>	<b>2,182</b>	<b>13,043</b>	<b>(3,186,024)</b>	<b>69,083</b>
<b>Total Assets</b>	<b>\$ 6,007,402</b>	<b>\$ 308,479</b>	<b>\$ 9,749</b>	<b>\$ 1,424,444</b>	<b>\$ 958,450</b>	<b>\$ 4,431,394</b>	<b>\$ 1,028,583</b>	<b>\$ 3,413,974</b>	<b>\$ (3,483,641)</b>	<b>\$ 14,087,334</b>

(Continued)

HUMAN SERVICES INC. AND SUBSIDIARIES  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION - Continued  
DECEMBER 31, 2011

LIABILITIES AND NET ASSETS

	Human Services	HSI Properties	HSI Solutions	Oak Hill Apartments	Oak Hill Apartments II	Pearson Place	Ridgmont Limited	Jensen Hoobey LLC	Eliminations	Consolidated Total
<b>Current Liabilities</b>										
Accounts payable	\$ 208,005	\$ 15	\$ 6,710	\$ 4,180	\$ 1,184	\$ 7,835	\$ 22,108	\$ 10,062	\$ (6,535)	\$ 253,688
Accounts payable - related parties	-	2,591	-	10,000	7,000	28,377	22,500	9,539	(27,981)	52,416
Developer fees payable	-	-	-	-	-	82,000	-	142,200	-	224,200
Accrued salaries and wages	134,414	-	-	-	-	-	-	-	-	134,414
Accrued payroll taxes and withholdings	-	-	-	-	-	-	-	-	-	-
Accrued interest payable	-	-	-	113,984	44,671	288,321	148,048	241,338	-	816,241
Accrued real estate taxes	-	-	-	19,500	8,100	7,200	8,200	12,900	-	56,500
Advances payable	201,909	-	-	-	-	-	-	-	-	201,909
Security deposits	-	-	-	13,700	6,800	9,820	7,710	10,450	-	48,680
Prepaid rent	-	-	-	324	1,317	1,958	32	-	-	3,629
Note payable - current portion	-	5,000	-	22,385	35,374	58,791	13,553	6,819	(25,489)	117,427
<b>Total Current Liabilities</b>	<b>544,322</b>	<b>7,646</b>	<b>6,710</b>	<b>184,963</b>	<b>104,428</b>	<b>474,303</b>	<b>222,152</b>	<b>452,690</b>	<b>(59,959)</b>	<b>1,917,902</b>
<b>Long-Term Liabilities</b>										
Notes payable - less current portion	3,229,424	14,000	-	1,131,380	582,458	1,724,457	523,945	987,831	(3,185,924)	4,987,551
<b>Total Long-Term Liabilities</b>	<b>3,229,424</b>	<b>14,000</b>	<b>-</b>	<b>1,131,380</b>	<b>582,458</b>	<b>1,724,457</b>	<b>523,945</b>	<b>987,831</b>	<b>(3,185,924)</b>	<b>4,987,551</b>
<b>Total Liabilities</b>	<b>3,773,732</b>	<b>21,948</b>	<b>6,710</b>	<b>1,316,343</b>	<b>686,886</b>	<b>2,198,740</b>	<b>746,097</b>	<b>1,420,791</b>	<b>(3,245,880)</b>	<b>6,905,353</b>
<b>Net Assets</b>										
Non-controlling interest in net assets	-	-	-	108,377	280,247	2,293,250	166,978	1,608,286	-	4,695,138
Unrestricted Net Assets	2,212,128	288,593	3,038	(276)	319	(96)	83,510	184,827	(247,781)	2,802,323
Unrestricted Net Assets - Board restricted	21,522	-	-	-	-	-	-	-	-	21,522
<b>Total Unrestricted Net Assets</b>	<b>2,233,650</b>	<b>288,593</b>	<b>3,038</b>	<b>(276)</b>	<b>319</b>	<b>(96)</b>	<b>83,510</b>	<b>184,827</b>	<b>(247,781)</b>	<b>2,823,845</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 6,007,402</b>	<b>\$ 308,478</b>	<b>\$ 9,748</b>	<b>\$ 1,424,444</b>	<b>\$ 969,480</b>	<b>\$ 4,431,894</b>	<b>\$ 1,008,583</b>	<b>\$ 3,413,974</b>	<b>\$ (3,453,641)</b>	<b>\$ 14,087,394</b>

See Independent auditor's report on supplementary information

HUMAN SERVICES INC. AND SUBSIDIARIES  
CONSOLIDATING STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Human Services	HSI Properties	HSI Solutions	Oak Hill Apartments	Oak Hill Apartments II	Pearson Place	Ridgeway Limited	Jerman Housing LLC	Eliminations	Consolidated Total
<b>REVENUES AND OTHER SUPPORT</b>										
Government grants	\$ 10,444,794	-	-	-	-	\$ 80,000	-	-	-	\$ 10,504,794
Contributors	361,489	31,416	-	-	-	215,084	117,023	-	-	661,489
Rental income	63,180	-	-	295,875	127,741	215,084	(5,188)	135,228	-	656,548
Less: Vacancy loss	-	-	-	(15,477)	(14,128)	(12,254)	(5,188)	(8,783)	-	(55,790)
Rent concessions	-	-	-	(17)	(1,356)	(13,845)	(500)	-	-	(15,718)
Interest income	4,845	-	-	241	45	31	47	211	-	5,422
Miscellaneous tenant charges	-	-	-	2,155	1,772	3,365	375	1,605	-	7,067
Other income	94,505	-	13,886	575	-	46,877	4,351	-	-	115,432
Tax Refund	-	-	-	-	29,006	-	-	-	-	45,877
Insurance Reimbursement	-	-	-	29,491	-	-	-	-	-	83,487
Other donations	489,988	-	-	-	-	-	-	-	-	489,988
Revenues and other support	11,638,511	31,416	13,886	252,849	143,080	298,283	116,528	159,282	-	12,674,244
Total Unrestricted Revenues and Other Support	11,638,511	31,416	13,886	252,849	143,080	298,283	116,528	159,282	-	12,674,244
<b>EXPENSES</b>										
CSBG	393,815	-	-	-	-	-	-	-	-	393,815
Section 8	2,414,489	-	-	-	-	-	-	-	-	2,414,489
Energy assistance	972,853	-	-	-	-	-	-	-	-	972,853
Headstart	4,028,439	-	-	-	-	-	-	-	-	4,028,439
Weatherization	1,573,648	-	-	-	-	-	-	-	-	1,573,648
WIC	349,489	-	-	-	-	-	-	-	-	349,489
USDA	251,514	-	-	-	-	-	-	-	-	251,514
HRPP	273,140	-	-	-	-	-	-	-	-	273,140
Commodity	108,338	-	-	-	-	-	-	-	-	108,338
CCDF	154,231	-	-	-	-	-	-	-	-	154,231
Low-income housing	-	-	-	-	-	-	-	-	-	-
Other programs	1,133,910	3,723	12,003	341,797	201,260	365,136	124,517	303,508	-	1,336,627
Total Program	11,643,982	3,723	12,003	341,797	201,260	365,136	124,517	303,508	-	12,986,305
Management and general	301,042	-	-	-	-	-	-	-	-	301,042
Total Expenses	11,944,994	3,723	12,003	341,797	201,260	365,136	124,517	303,508	-	13,287,347
Increase (decrease) in net assets before non-controlling interest	(288,153)	27,693	1,883	(89,954)	(58,189)	(65,848)	(7,389)	(144,025)	-	(623,103)
Non-controlling interests' portion of loss	-	-	-	89,395	53,131	39,341	7,381	144,619	-	366,397
Increase (decrease) in net assets	(288,153)	27,693	1,883	(89)	(58)	(7)	(8)	(7)	-	(256,786)
Net assets - beginning of year	2,619,333	350,840	1,146	(187)	377	(89)	483	184,934	(184,726)	2,372,611
Contributions	-	-	-	-	-	-	63,035	-	(63,035)	-
Prior Period Adjustments	-	(82,000)	-	-	-	-	-	-	-	(82,000)
Net assets - end of year	2,233,650	265,533	3,029	(276)	319	(89)	83,510	184,927	(257,761)	2,523,845

See independent auditor's report on supplementary information

**HUMAN SERVICES INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	Human Services	HSI Properties	HSI Solutions	Oak Hill Apartments	Oak Hill Apartments II	Pearson Place	Ridgecrest Limited	Jerman Housing LLC	Eliminations	Consolidated Total
<b>EXPENSES:</b>										
Salaries and wages	\$ 3,878,494	\$ -	\$ -	\$ 23,703	\$ 13,783	\$ 18,883	\$ 8,913	\$ 37,328	\$ -	\$ 3,983,904
Payroll taxes	390,674	-	-	4,635	2,235	-	-	2,919	-	400,463
Employee Benefits	769,949	-	-	-	-	-	-	-	-	769,949
Employee Related Expenses	15,240	-	-	-	-	-	-	-	-	15,240
Professional fees	903,727	-	128	19,842	12,312	38,118	13,514	18,791	-	1,006,432
Supplies	461,757	-	189	18,532	11,544	9,232	2,374	1,127	-	505,755
Communications	80,071	-	1	1,221	538	3,062	1,427	7,225	-	93,585
Shipping	21,287	47	2	-	-	-	-	-	-	21,338
Occupancy Costs	633,878	-	1,716	-	-	-	-	-	-	635,594
Equipment Rental and Maintenance	74,585	-	-	-	-	-	-	-	-	74,585
Printing	16,482	-	-	-	-	-	-	-	-	16,482
Travel	259,891	33	351	-	-	474	-	-	-	260,749
Conferences	745,182	111	-	-	-	-	-	-	-	745,293
Specific Assistance to Individuals	3,834,121	-	-	-	-	-	-	-	-	3,834,121
Membership Dues	6,886	-	-	-	-	-	-	-	-	6,886
Insurance Expense	50	-	-	-	-	-	-	-	-	50
Taxes	57,522	3,532	-	38,225	21,055	99,226	38,562	58,238	-	253,457
Construction Expense	-	-	2	11,740	5,869	9,579	2,457	12,612	-	39,781
Advertising	-	3,532	9,614	19,817	8,182	7,211	6,370	9,213	-	54,125
Property Maintenance	-	-	-	757	-	112	-	1,545	-	9,614
Utilities	-	-	-	73,941	36,462	11,154	8,270	23,930	-	2,414
Partnership fees	-	-	-	24,267	18,538	22,183	5,655	20,157	-	153,747
Bad Debt	-	-	-	2,000	1,000	3,377	2,500	3,800	-	90,700
Amortization	-	-	-	330	1,059	400	-	-	-	3,513
Depreciation	285,218	-	-	96,987	68,682	141,812	33,904	108,129	-	3,253
<b>Total Expenses</b>	<b>\$ 11,944,994</b>	<b>\$ 3,723</b>	<b>\$ 12,003</b>	<b>\$ 341,797</b>	<b>\$ 201,269</b>	<b>\$ 365,136</b>	<b>\$ 124,517</b>	<b>\$ 303,908</b>	<b>\$ -</b>	<b>\$ 13,297,347</b>

See independent auditor's report on supplementary information

**HUMAK SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Human Services</u>	<u>MSI Properties</u>	<u>MSI Solutions</u>	<u>Oak Hill Apartments</u>	<u>Oak Hill Apartments II</u>	<u>Pearson Place</u>	<u>Re/Genest Limited</u>	<u>Jerman Housing LLC</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>										
Change in net assets	\$ (288,162)	\$ 27,693	\$ 1,693	\$ (89,954)	\$ (93,169)	\$ (65,846)	\$ (7,899)	\$ (144,826)	\$ 398,337	\$ (238,765)
Adjustments to reconcile change in net assets to net cash provided by operating activities:										
Depreciation	285,218	-	-	54,387	63,882	141,812	33,904	108,129	-	754,732
Amortization	-	-	-	330	1,059	400	571	855	-	3,253
Bad debt	-	-	-	-	-	3,873	-	-	-	3,873
Change in non-contracting interest	-	-	-	-	-	-	-	-	(966,337)	(966,337)
(Increases) decreases in operating assets:										
Grants receivable	235,889	-	(6,629)	-	-	-	-	-	9,487	245,196
Accounts receivable	-	-	-	-	-	(3,471)	-	(89)	-	(6,529)
Accounts payable	-	-	-	-	-	(14,769)	-	-	-	(14,769)
Accounts receivable - tenant	-	-	-	316	3,163	(612)	(914)	3,691	-	(6,790)
Mortgage escrow	-	-	-	-	108	(812)	(33,040)	(158)	-	1,691
Security deposits	-	-	-	(84)	(3)	-	-	-	-	(87)
Operating reserves	(3,209)	-	-	-	-	-	-	-	-	(3,209)
Notes receivable	(17,009)	-	-	-	-	-	-	-	-	(17,009)
Inventory	165	-	-	-	-	-	-	-	-	165
Other Assets	(9,704)	-	-	-	-	(4,270)	(4,891)	-	-	(18,874)
Prepaid expenses	-	-	-	-	-	-	-	-	-	-
(Increases) decreases in operating liabilities:										
Accounts payable	(124,789)	(29,601)	4,698	881	(905)	2,913	20,024	4,822	8,487	(112,399)
Accounts payable - timber partners	-	-	-	2,000	1,000	(5,981)	2,500	7,305	-	6,824
Accrued interest payable	-	-	-	5,090	-	46,393	12,072	29,269	-	101,149
Accrued real estate taxes	-	-	-	-	-	(18,900)	(700)	-	-	(19,600)
Accrued salaries and wages	(19,657)	-	-	-	-	-	-	-	-	(19,657)
Accrued taxes	(41,151)	-	-	-	(108)	613	-	363	-	(41,151)
Security deposits	-	-	-	330	(108)	813	-	-	-	2,136
Prepaid rent	-	-	-	324	821	1,354	(106)	-	-	2,163
Advances payable	(21,529)	-	-	-	-	-	-	-	-	(21,529)
Net Cash Provided by (Used In) Operating Activities	(1,819)	(699)	63	20,644	22,719	94,828	22,446	9,610	17,964	175,549
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>										
Decrease of construction costs	-	-	-	-	-	(60,000)	(5,618)	-	-	(65,618)
Net deposits to reclamation reserve	(21,699)	-	-	(7,259)	(4,829)	(10,520)	-	(603)	-	(27,440)
Purchase of property and equipment	-	-	-	-	-	-	-	-	-	(21,699)
Net Cash Provided by (Used In) Investing Activities	(21,699)	-	-	(7,259)	(4,829)	(70,920)	(5,618)	(603)	-	(106,126)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>										
Payment on debt	13,857	19,000	-	(22,469)	(16,145)	(6,819)	(13,101)	(4,057)	(17,964)	(30,676)
Payment of developer fee	-	(63,696)	-	-	-	-	(83,036)	-	-	(146,732)
Increase in investment in partnerships	-	-	-	-	-	-	63,003	-	-	63,003
Additional paid in capital	-	-	-	-	-	-	-	(5,000)	-	(5,000)
Additional capitalized costs	-	(44,025)	-	(22,453)	(16,145)	(6,819)	(13,101)	(10,057)	(17,964)	(118,711)
Net Cash Provided by (Used In) Financing Activities	(9,842)	(44,696)	63	(4,069)	1,745	5,086	5,728	(1,260)	-	(82,269)
Net increase (decrease) in cash	281,857	60,272	1,188	20,177	3,839	783	816	1,260	-	370,164
Cash - beginning of year	272,190	16,329	1,251	11,109	5,584	5,870	8,542	-	-	317,876
Cash - end of year	\$ -	\$ -	\$ -	\$ 28,881	\$ 15,965	\$ 62,853	\$ 27,177	\$ 20,360	\$ -	\$ 122,645
Interest paid during the year	-	-	-	-	-	-	-	-	-	-

See Independent Auditor's report on supplementary information

**HUMAN SERVICES, INC.  
HEAD START PROGRAM  
GRANT NO. 05CH4176/46  
STATEMENT OF REVENUE AND EXPENSES  
FOR THE PROGRAM YEAR ENDED DECEMBER 31, 2011**

<u>REVENUE</u>	<u>Full Year Part-Day</u>	<u>Early Head Start</u>	<u>Total</u>
Grant award	\$ 2,574,178	\$ 937,790	\$ 3,511,968
Undrawn grant funds	-	-	-
Local cash	93,615	-	93,615
In-kind contributions	416,380	-	416,380
<b>Total Revenue</b>	<u>3,084,173</u>	<u>937,790</u>	<u>4,021,963</u>
 <u>EXPENSES</u>			
Salaries and wages	1,618,778	581,105	2,199,883
Payroll taxes	164,431	56,578	221,009
Employee Benefits	323,834	132,012	455,846
Employee Related Expenses	7,379	2,032	9,411
Professional Fees	33,799	11,962	45,761
Supplies	69,616	51,146	120,762
Communications	20,397	5,901	26,298
Shipping	3,132	308	3,440
Occupancy Costs	444,613	41,487	486,100
Equipment Rental and Maintenance	25,726	6,012	31,738
Printing	4,810	1,868	6,676
Travel	135,460	19,750	155,210
Conferences	63,465	25,538	89,003
Specific Assistance to Individuals	157,600	-	157,600
Membership Dues	2,161	172	2,333
Insurance Expense	15,817	1,552	17,369
	<u>3,091,018</u>	<u>937,421</u>	<u>4,028,439</u>
	<u>\$ (6,845)</u>	<u>\$ 369</u>	<u>\$ (6,476)</u>

See independent auditor's report on supplementary information

**HUMAN SERVICES, INC.**

**REPORTS PRESCRIBED BY  
OMB CIRCULAR A-133**

**DECEMBER 31, 2011**



**Gauthier & Kimmerling, LLC**  
accountants & advisors

7340 Shadeland Station • Suite 100 • Indianapolis, IN 46256 • (317) 572-1130

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**Report on Internal Control Over Financial Reporting and Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

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Board of Directors  
Human Services, Inc.  
Columbus, Indiana

We have audited the financial statements of Human Services, Inc. (HSI) as of and for the year ended December 31, 2011, and have issued our report thereon dated September 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial reporting contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of HSI is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered HSI's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HSI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of HSI's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether HSI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of HSI's Board of Directors, management, others within the entity, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Shawcross & Hammarling, LLC*

September 27, 2012



Gauthier & Kimmerling, LLC  
accountants & advisors

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Report on Compliance with Requirements That Could Have a Direct  
and Material Effect on Each Major Program and on Internal Control  
Over Compliance in Accordance with OMB Circular A-133

Board of Directors  
Human Services, Inc.  
Columbus, Indiana

COMPLIANCE

We have audited the compliance of Human Services, Inc. (HSI) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB Circular A-133 Compliance Supplement) that could have a direct and material effect on each of HSI's major federal programs for the year ended December 31, 2011. HSI's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of HSI's management. Our responsibility is to express an opinion on HSI's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about HSI's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of HSI's compliance with those requirements.

As described in Item 2011-01 in the accompanying schedule of findings and questioned costs, HSI did not comply with requirements regarding proper documentation that is applicable to its Section 8 voucher program. Compliance with such requirements is necessary, in our opinion, for HSI to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the previous paragraph, HSI complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

### INTERNAL CONTROL OVER COMPLIANCE

Management of HSI is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered HSI's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HSI's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program, will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies described in the accompanying schedule of findings and questioned costs as item 2011-01. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

HSI's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit HSI's response and, accordingly, we express no opinion on the response.

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of HSI as of and for the year ended December 31, 2011, and have issued our report dated September 27, 2012 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the

Page 3

underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects to the financial statements as a whole.

This report is intended solely for the information of HSI's Board of Directors, management, others within the entity and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Hauthier & Hammerling, LLC*

September 27, 2012

Human Services, Inc.  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2011

Federal Grantor/Program Title/ Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<b>U.S. Department of Agriculture</b>			
Women, Infants & Children - Indiana State Department of Education	10.557	WIC 375-1	\$ 357,516
Child and Adult Care Food Program - Indiana State Department of Education	10.558	01-03-0014	248,443
Rural Business Enterprise Grant - Indiana State Department of Education	10.783	RDBCP-09-RBEG	<u>24,000</u>
<b>Total U.S. Department of Agriculture</b>			<u>629,959</u>
<b>U.S. Department of Housing and Urban Development</b>			
Supportive Housing Program	14.235	IN0017B5H021003 IN0062B5H021003 IN0017B5H020802 IN0062B5H020802	60,781 24,493 57,876 <u>25,579</u>
<b>Total Supportive Housing Program</b>			<u>168,729</u>
Community Development Block Grant - Indiana Housing and Community Development Authority	14.228	DR2OR-009-028	113,012
Energy Shelter Grant Program - Indiana Housing and Community Development Authority	14.231	ES-011-029	26,597
Homeless Prevention and Repld Re-housing - Indiana Housing and Community Development Authority	14.257	HPRP-09-16	225,673
Section 8 Voucher Program - Indiana Housing and Community Development Authority	14.871	SH-006-002	<u>2,414,739</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>2,948,750</u>
<b>U.S. Department of Energy</b>			
Weatherization Assistance for Low-Income Persons - Indiana Housing and Community Development Authority	81.042	WX-010-013	318,855
ARRA Home Energy Conservation for Low-Income Persons - Indiana Housing and Community Development Authority	81.042	HEC-010-013	<u>1,249,477</u>
<b>Total U.S. Department of Energy</b>			<u>1,568,332</u>

(Continued)

Human Services, Inc.  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2011  
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Homeland Security			
Emergency Food and Shelter Program	97.024	N/A	880
Total U.S. Department of Homeland Security			880
U.S. Department of Housing and Human Services:			
Head Start Cluster			
Head Start Program	93.800	05CH-4176-46	2,574,178
Early Head Start	93.709	05SA-4176-02	937,790
Early Learning Mentoring Coached Grant	93.708	90ST0052-01	134,485
Total Head Start Cluster			3,646,453
Low Income Home Energy Assistance			
- Indiana Housing and Community Development Authority	93.568	LI-009-013	463,158
		WL-011-013	1,393,161
		WL-012-013	652,234
Total Low Income Home Energy Assistance			2,508,553
Community Block Grant			
- Indiana Housing and Community Development Authority	93.569	CS-011-013	383,808
Business Enterprise & Economic Development			
- Indiana Housing and Community Development Authority	93.569	CS-010-023CSBG	10,000
Child Care Development Fund			
- Indiana Family Social Services Administration	93.596	03-06-34-1678-14	84,970
		03-06-34-1678-15	69,375
			154,345
Total U.S. Department of Housing and Human Services			6,703,159
Total Expenditures of Federal Awards			\$ 11,851,080

\* Includes \$1,018,790 for WL-011-013 and \$517,379 for WL-012-013 paid directly by Indiana Housing and Community Development Authority on behalf of HSI.

The accompanying notes are an integral part of this schedule.

Human Services, Inc.  
Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2011

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The following describes the significant accounting policies used in the preparation of the schedule of expenditures of federal awards:

Basis of Presentation – The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of HSI under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*. Because the schedule presents only a select portion of the operations of HSI, it is not intended to and does not present the financial position, changes in net assets or cash flows of HSI.

Summary of Significant Accounting Policies – Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Human Services, Inc.  
Summary Schedule of Prior Audit Findings  
For the Year Ended December 31, 2011

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ITEM NUMBER

AUDIT FINDING

FA-2010-01 through FA-2010-05

Specific program documentation was not centralized or reviewed for completeness for the Section 8 program, due to missing, inaccurate and/or incompleteness.

Corrective Action:

These items were cleared by the Indiana Housing and Community Development Authority.

FS-2010-01

Material journal entries to present the financial position of the Organization were required.

Corrective Action:

HSI made the entries and did not have material adjusting journal entries for 2011.

Human Services, Inc.  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2011

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**Section I - Summary of Auditors' Results**

Financial Statements:

Type of auditor report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified that are not considered to be material weaknesses? *None reported*

Noncompliance material to financial statements noted: *No*

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified: *No*
- Significant deficiency(ies) identified that are not considered to be material weaknesses? *Yes*

Type of auditors' report issued on compliance for major programs: *Qualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? *Yes*

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
93.600, 93.709, 93.708	Headstart Start Cluster (ARRA Funds)
81.042	Weatherization Assistance (ARRA Funds)
14.871	Low-income Housing Assistance Program
93.568	Low-income Home Energy Assistance
93.596	Child Care Development Fund (ARRA Funds)

Human Services, Inc.  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2011

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**Section I - Summary of Auditors' Results - continued**

Dollar threshold used to distinguish between type A and type B programs: \$355,532

Auditee qualified as low-risk auditee? *No*

**Section II - Financial Statement Findings**

*No matters were reported.*

**Section III - Federal Award Findings and Questioned Costs**

**FINDING NO. 2011-01**

U.S. Department of Housing and Urban Development  
Indiana Housing and Community Development Authority  
CFDA #14.871 - Section 8 Voucher Program  
Award No. SH-006-002  
Award Year: 1/1/11-12/31/11

Criteria:	Required documentation should be complete, accessible and accurate.
Condition:	Client files inspected contained incomplete and/or missing documents
Context:	During our review of tenant files, we found a few files that were not in compliance due to the condition stated above.
Questioned Cost:	Undeterminable, less than \$10,000.
Effect:	Some documentation was incomplete and/or missing.
Cause:	Specific program documentation was not centralized or reviewed for completeness which resulted in missing, and/or incomplete forms.
Recommendation:	HSI should maintain client files in accordance with grant requirements in a systematic manner
Management response:	HSI will review all current client files and ensure they are complete, accurate and in compliance with grant requirements.